



# INDUSTRY CIRCULAR

DEPARTMENT OF  
THE TREASURY

Bureau of Alcohol, Tobacco and Firearms

Washington, D. C. 20226

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## IMPORTED PERFUMES TAX INCREASE AND RESULTING FLOOR STOCKS TAX

Importers and Wholesalers of Imported Perfumes; and Others  
Concerned:

Purpose. This Industry Circular is issued to advise importers and wholesalers of imported perfumes of an increase in the imported perfumes tax rate, effective October 1, 1985, and of a resulting one-time floor stocks tax. In addition, this circular will describe the procedure for establishing the inventory of imported perfume that will be used to determine the floor stocks tax liability.

Background. The Deficit Reduction Act of 1984 (Public Law 98-369), enacted on July 18, 1984, increased the rate of tax on imported perfumes containing distilled spirits (ethyl alcohol) from \$10.50 to \$12.50 per wine gallon, effective October 1, 1985. All imported perfumes containing distilled spirits removed from bonded premises on or after the effective date will be subject to the increased tax rate. As a transition to the new tax rate, this Act imposes a one-time floor stocks tax equal to the difference between the old and new tax rates (\$2.00 per wine gallon) on all taxpaid imported perfumes containing distilled spirits held for sale on October 1, 1985, except for imported perfumes held at retail establishments.

Terms Defined. Certain terms used in this circular may need defining to alleviate any confusion. The following definitions should assist concerned proprietors:

Wine gallon. A standard U.S. volumetric gallon.

Small or medium-sized dealer. Any dealer whose aggregate gross sales receipts for all products (not just imported perfumes) for the most recent taxable year ending before October 1, 1985, do not exceed \$500,000.

Controlled group. Any group of incorporated or nonincorporated importers or other dealers that have common ownership interests. Generally, a proprietor is considered to be part of a controlled group if more than 50 percent of the company is either owned by, or in common with, another company (or companies).

Floor Stocks Tax Liability. The imported perfumes floor stocks tax is imposed on all federally taxpaid or tax-determined imported perfumes that contain distilled spirits and that are held for sale on the first moment of October 1, 1985, except that: (1) this liability is not imposed on imported perfumes held at retail establishments, and (2) imported perfumes held by proprietors who have 500 wine gallons or less on hand at places other than retail establishments on October 1, 1985 are exempt from the tax.

The exemption for retail establishments applies only to imported perfumes held at the place where they are intended to be sold at retail. The exemption includes imported perfumes held in storage facilities that are within or form an integral part of the retail premises at the same physical location. It does not apply to imported perfumes held in warehouses or other similar storage facilities located away from the retail premises where retail customers do not have regular access to them. Imported perfumes held in these separate storage facilities are subject to the floor stocks tax.

All proprietors who have more than 500 wine gallons on hand at places other than at retail establishments are allowed as a credit against the floor stocks tax an amount equal to \$800 or the amount of tax liability, whichever is smaller. For purposes of determining the 500 wine gallon exemption and the \$800 credit, the individual members of a controlled group are considered together as a single entity. Taxpaid imported perfumes held for sale on Federal property (military installations, Indian reservations, etc.) are not excluded from the tax for that reason.

General Inventory Provisions. Liability for the floor stocks tax must be established by a physical inventory of imported perfumes containing distilled spirits on hand as of the first moment of October 1, 1985.

Proprietors who prefer not to take a physical inventory on October 1, may take it anytime between September 23, and October 6, 1985. (Or, if the business is closed before September 23, and will remain closed through October 1, the inventory may be taken on the last business day before closing.) If the physical inventory is not taken between the end of the last business day of September, and the beginning of

the first business day of October, it must be reconciled (adjusted) to October 1, 1985. This reconciliation must be supported by records of all receipts and dispositions between October 1, and the date of the inventory, and reflect the actual inventory as if such inventory had actually been taken on October 1.

The physical inventory will be recorded in writing as it is being taken, and retained at the place of business to which the inventory pertains for a period of at least 3 years after the filing date of the floor stocks tax return. The record of inventory must identify all products by brand name and size of container, and must be made available at each proprietor's place of business for inspection by ATF officers. Taxpaid imported perfumes in transit as of October 1, 1985, will be included in the inventory of the person who owns the perfumes as of that date.

Except for proprietors whose entire stock of imported perfumes is held on the premises of a retail establishment, all proprietors holding taxpaid imported perfumes for sale, including those persons holding 500 wine gallons on hand or less, must take a complete inventory in wine gallons. Therefore, proprietors must convert imported perfumes held in metric sizes to their wine gallon equivalents.

To convert the inventory to wine gallons, the quantity of imported perfumes of each brand and size in liters should be multiplied by the standard conversion factor of 0.264172. For each such conversion by brand and size, the total wine gallons should be rounded to the nearest hundredth (for example, 75.369712 wine gallons would be rounded to 75.37). There are two basic methods that can be used to convert liters to wine gallons; both will yield the same result.

The conversion from liters to wine gallons may be made by first converting single units of the product to their wine gallon equivalent by multiplying each unit by the standard conversion factor and rounding this amount to the nearest sixth decimal place. Multiply this figure by the total number of units in order to determine the total amount in wine gallons. This final answer should be rounded off to the nearest second decimal place (that is, to the nearest hundredth of a wine gallon). For example, if you had seven .055 Liter bottles on hand of a certain product, you could convert each bottle to its wine gallon equivalent using the standard conversion factor,

carry out the answer to the sixth decimal place, multiply by seven, the number of bottles, and round this figure off to the nearest second decimal place to get the final amount in wine gallons.

Alternatively, the conversion from liters to wine gallons may be made by first determining for each product, by brand and size, the quantity of the entire stock of the product in liters, multiplying by the standard conversion factor, and rounding to the nearest second decimal place. Using the figures from the example above, 7 bottles, each containing .055 liters, of a certain product would equal .385 liters. This amount can be multiplied by the standard conversion factor and the answer rounded to two decimal places. Both methods result in the same answer, 0.11 wine gallons.

Unmerchutable imported perfumes are not subject to the floor stocks tax. In this context, unmerchutable refers to perfumes which are being returned back up the merchandising chain because of some defect, and which will eventually be destroyed or returned to Customs bond. Imported perfumes which are being returned because of poor market demand or to reduce inventory are not considered unmerchutable. Although the floor stocks tax is not imposed on unmerchutable imported perfumes, all persons holding for sale imported perfumes that are subject to the floor stocks tax for sale must physically segregate any unmerchutable products and include them in a separate section of their inventory record. The unmerchutable merchandise should not be included when determining whether the dealer holds over 500 wine gallons, and should not be shown on the floor stocks tax return. If for any reason such perfumes are not subsequently returned or destroyed, floor stocks tax must be paid on them and the taxpayer must file an amended floor stocks return. Failure to comply with these provisions can result in the assessment of interest and penalties.

Computing Tax Liability. The total tax liability, before taking any credit, is determined by multiplying the total wine gallons in inventory times \$2.00. For example, 870.25 wine gallons X \$2.00 = \$1740.50. The \$800 credit is then subtracted from the computed tax to determine the total tax due. Also, members of controlled groups are reminded that the controlled group is entitled to a single credit, which may be apportioned among the members in any manner satisfactory to them.

Paying Floor Stocks Tax. All proprietors holding imported perfumes for sale on the premises of retail establishments only, or having 500 wine gallons or less in inventory at places other than retail establishments (except for members of a controlled group who, together, have a total inventory of more than 500 wine gallons), owe no tax and are not required to file a tax return. All other persons holding for sale imported perfumes containing distilled spirits for sale on October 1, 1985, must file a tax return.

The floor stocks tax return (IRS Form 11) will be distributed to proprietors by September 15, 1985. Additional forms may be obtained from IRS and ATF offices.

The floor stocks tax return must be filed with the appropriate Internal Revenue Service Center, with full payment, on or before April 1, 1986. Small and medium-sized dealers may elect to pay the tax in three equal installments due on or before April 1, July 1, and October 1, 1986. These dealers will be responsible for filing the tax return with the first payment on or before April 1, 1986, and will be billed for the installment payments due on or before July 1, and October 1, 1986 by the Internal Revenue Service. For purposes of determining whether a controlled group qualifies to pay the tax in installments, the members of a controlled group are considered together as a single entity.

Inquiries. Please direct any inquiries concerning the floor stocks tax to the appropriate floor stocks tax coordinator in the nearest ATF regional office, listed below:

Midwest Region

Bureau of Alcohol, Tobacco  
and Firearms  
230 S. Dearborn St.  
15th Floor  
Chicago, IL 60604  
(312) 886-5149

Bureau of Alcohol, Tobacco  
and Firearms  
500 Main Street, Rm. 6510A  
Federal Office Bldg.  
Cincinnati, OH 45202  
(513) 684-3334

North Atlantic Region

Bureau of Alcohol, Tobacco  
and Firearms  
6th Floor  
6 World Trade Center  
New York, NY 10048  
(212) 264-3994

Bureau of Alcohol, Tobacco  
and Firearms  
Fed. Bldg./U.S. P.O.  
Sixth Floor  
Ninth & Market Streets  
Philadelphia, PA 19107  
(215) 597-3984

Southwest Region

Bureau of Alcohol, Tobacco  
and Firearms  
1114 Commerce Street  
Room 701  
Dallas, TX 75242  
(214) 767-2257

Southeast Region

Bureau of Alcohol, Tobacco  
and Firearms  
3835 Northeast Exwy.  
Room 200  
Atlanta, GA 30340  
(404) 455-2645

Western Region

Bureau of Alcohol, Tobacco and Firearms  
525 Market Street  
34th Floor  
San Francisco, CA 94105  
(415) 974-9620

Director